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SUBJECT: NEW YEAR BRINGS NEW REGULATIONS FOR CREDIT CARDS AND
HEADACHES FOR BANKING INDUSTRY

SUMMARY

1. (SBU) The Government of Brunei (GOB) rang in the New Year with a series of immediately applicable personal credit card regulations enforced throughout the banking community. Raising minimum age limits, regulating card balance limits independent of bank control, and imposing mandated deposits with any banks not holding control over employee salaries are just some of the sweeping changes effective as of January 1, 2010. Banks received no say in the creation and implementation of these changes and were only sent notice late on December 31, 2009. The impact for the average Brunei citizen much less the overall consumer spending levels remains to be seen however it is certain that these actions are already creating a boiling point in the local media and community at large. End Summary.

Reduce your credit card portfolio or else!

2. (SBU) In a recent notice sent to banks in Brunei, the Ministry of Finance (MOF) stated that all licensed banks providing credit card services will have to conform to certain criteria effective from January 01, 2010. The notice is pursuant to Section 66 of the Banking Order 2006, which states that the Authority (MOF) may impose requirements on operations, activities and standards to be maintained by banks, if necessary or expedient in the public interest or in the interest of the banking system. The move appears to be in line with MOF's 2005 financial guidelines, which state that local and foreign banks should reduce their consumer lending business to 30% of their local portfolios. MOF's statistics in the Oxford Business Group report on Brunei 2009 indicated that personal loans, including credit card loans, amounted to 39% of total banking loans at the first quarter of 2009.

New guidelines for credit cards

3. (SBU) The new criteria are:
- Minimum age of 21 years for holding a credit card
 - Minimum monthly gross salary of BND500 (USD357)
 - Maximum credit limit equivalent to 1 month's salary for salaries below BND500; 2 months' salary for salaries up to BND10,000; and, amounts to bank's discretion for those earning more than BND10,000
 - A person may only have credit card facilities at the bank where their salaries are actively credited, or have a fixed deposit equivalent to their credit limit at other banks.
 - An immediate increase to five percent of the minimal monthly repayment of outstanding balance, which will be further increased to eight percent after March 2010.
 - Prohibition of using credit cards to pay for monthly bank loan obligations
 - Bank pre-approved credit cards will no longer allowed.
 - Promotion and advertisement of credit cards will require the approval of MOF
 - Banks will be required to fully disclose all cost and charges to credit card customer
 - Banks to promote debit cards
 - Banks will be granted six months grace to facilitate the

compliance of the directive, after which customers which do not meet the criteria will have their credit cards withdrawn and given a period of 36 months to settle their credit card obligations

Banks in the dark about the new guidelines

14. (SBU) It appears the December 30, 2009 directive caught banks by surprise as the directive essentially is enforced immediately (Note: Sources indicate that banks received the directive via fax late December 31 prior to the holiday weekend and in turn only saw actual notice on Monday January 4, 2010). Numerous press reports in local media of interviews with heads of banks indicated that banks were not consulted prior to the issuance of the directive. More importantly with no prior notice, they are scrambling to react to largely negative public opinion created by the MOF directive. The bank leaders also voiced concerns of the impact on the economy, both for local businesses and general consumers while stressing that lowered private debt was a positive goal and overall economic operation for a gas and oil driven economy would remain largely intact.

Impact on the public, banks and the economy

15. (SBU) While the MOF's effort toward curbing increasing personal debt is laudable, the introduction of the new guidelines on credit cards could not have come at a worse time. Effective January 1, 2010, the new Supplementary Contribution Pension Scheme (SCP) came into force. As such, the working population will have an additional 3.5% of their salary deducted and submitted into this new retirement scheme. In addition, the announcement is made well after 2009 year-end bonuses were spent by the majority of the public.

16. (SBU) Most financial institutions offer easy and attractive terms

for car loans (up to 100% financing with repayment up to 7 years), personal loans (up to 12 times of one's monthly salary with repayment period up to 6 years) and credit cards facilities (including 0% installment purchase schemes). It is hardly surprising that with such easy credit available, many individuals are financially committed to various loan repayment schemes and own several credit cards. A low to mid level civil servant on average would have to pay for monthly car loan and personal loan repayments, credit card minimal payments, on top of other living expenses while feeding a family of at least five to six persons. With these expenses, the extra burden of having 3.5% cut from their monthly salary for the SCP and having to settle credit card bills by a fixed deadline, the spending power of the average employee will significantly be affected.

17. (SBU) Bank executives of three major banks (HSBC, Bank Islam Brunei, Baiduri Bank) have expressed their confidence that their operations would be able to offset any adverse effects from the new directives. That said most banks will feel the pinch from the loss of credit card customers who no longer qualify for credit card facilities and may not want to maintain fixed deposits at such banks for the sake of a quasi debit vice credit card facility. Banks that do not handle civil service employee payrolls will lose the most customers under the new regulations (Note: most government payrolls are handled by the Islamic banks of which only one actually offers a personal credit card program). These banks are working on strategies to attract customers to transfer payroll transactions where fiscally possible.

18. (SBU) To make ends meet, the average consumer may have to resort to purchasing cheaper products. There may be an increase in the outflow of Bruneians to the neighboring Malaysian states of Sarawak and Sabah where goods will be cheaper due to lower value of the Malaysian dollar (approximately RM2.4 to BND1). (Note: To attract customers, local retailers may try to counteract declining business by increasing the sale of cheap (and likely IP infringed) products.) The China ASEAN Free Trade Agreement (CAFTA) comes into effect 2010, opening the doors for more China-made products into the market.

19. (SBU) The banking industry and numerous press articles are already voicing significant concerns that consumers may be forced to resort to borrowing from loan sharks in order to resolve their financial commitments. Press reports indicate that MOF is working on combating loan sharking activities by strengthening Chapter 62 of

the Money Lending Act. The current legislation has minimal penalties of a B\$2,500 fine and 6 months' jail.

¶10. (SBU) Already faced with a slower economy, increased cost of commodities (Note: Latest Economic Planning & Development figures states that Average Consumer Price Index in April 2009 is 2.4% higher compared to April 2008), this new Government strategy to control the excessive spending habits and over-reliance on credit facilities will be a bitter pill for the general public to swallow as they welcome in the New Year 2010.

TODD